

Message Text

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ACTION EB-07

INFO OCT-01 NEA-10 ISO-00 COME-00 TRSE-00 STR-04 OPIC-03

L-03 SS-15 SP-02 NSC-05 CIAE-00 INR-07 NSAE-00 FRB-03

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FM AMEMBASSY COLOMBO

TO SECSTATE WASHDC 3785

LIMITED OFFICIAL USE COLOMBO 3740

E.O. 11652:N/A

TAGS: EINV, ETRD, CE

SUBJECT: PROGRESS IN ESSO COMPENSATION CLAIM AGAINST CEYLON
PETROLEUM CORPORATION (CPC)

REF: A) COLOMBO 3230 B) STATE 232663

1. SUMMARY: IN NEGOTIATIONS IN COLOMBO NOVEMBER 19-21
ESSO EASTERN INC. REPRESENTATIVE REACHED AGREEMENT
WITH GSL ON COMPENSATION AMOUNT AT RS. 4 MILLION.
TAXATION AND FOREIGN EXCHANGE REMITTANCE ISSUES
REMAIN TO BE RESOLVED. THEY COULD BE DIFFICULT, BUT
BOTH PARTIES ARE INTERESTED IN EARLY, MUTUALLY
SATISFACTORY, SOLUTION. WE BELIEVE GSL AWARENESS OF
GSP ELIGIBILITY QUESTION HELPED MOVE NEGOTIATION
FORWARD. END SUMMARY.

2. AFTER DELYA DUE TO INDUSTRIES MINISTER SUBASINGHE'S
ILL HEALTH, ESSO EASTERN NEGOTIATOR A.G. NEFF,
ASSISTED BY LOCAL ESSO REPRESENTATIVE, A LAWYER AND
AN EXPERT VALUER RESUMED NEGOTIATION NOVEMBER 19 WITH
GSL TEAM LED AT FIRST BY CPC CHAIRMAN COOMARASWAMY
AND LATER BY SUBASINGHE. AFTER DETAILED DISCUSSIONS
OVER VALUATION OF PHYSICAL ASSETS. TWO SIDES
COMPROMISED AT SL RS. 4 MILLION (ABOUT US \$533,000
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AT OFFICIAL RATE). AFTER CALCULATING INTEREST, CERTAIN

OLD ESSO DEBTS TO CPC AND OTHER OFF-SETTING ITEMS,
FINAL FIGURE IS RS. 3.3 MILLION (ABOUT US \$ 440,000)

3. REMAINING TO BE RESOLVED ARE QUESTIONS OF
CAPITAL GAINS AND OTHER TAXES AND EXCHANGE RATE FOR
CONVERTIBLE CURRENCY REMITTANCE TO ESSO EASTERN.
ESTIMATED MAXIMUM TAX PLUS GSL INSISTANCE
THAT PREMIUM (FEEC) RATE BE PAID FOR DOLLARS COULD
REDUCE FINAL PAYMENT TO \$20-25,000 RANGE. NEFF,
HOWEVER, MADE CLEAR TO MINISTER THAT THIS WOULD BE

UNACCEPTABLE AS ESSO MUST TAKE AWAY REASONABLE
COMPENSATION. FYI ONLY: NEFF TOLD EMBASSY \$275-325,000 RANGE
WOULD BE ACCEPTABLE. END FHI. TO
REACH THIS FIGURE NEFF PROPOSED NEGOTIATED TAX
FIGURE AND EXCEPTION TO REQUIREMENT THAT OUTWARD
REMITTANCES BE AT PREMIUM RATE (NOW RS. 12.37 EQUAL US \$1).
ALTHOUGH NEFF HOPES REMAINING ISSUES CAN BE WORKED
OUT VIA LOCAL REPRESENTATIVE, HE IS WILLING RETURN
COLOMBO IF NECESSARY.

4. NEFF AND LOCAL REPRESENTATIVE, WHO HAVE BOTH
TAKEN COMPETENT LOW-KEY APPROACH, TOLD EMBASSY
THAT NEGOTIATING SESSIONS HAVE BEEN
CORDIAL AND CONSTRUCTIVE.

5. WE UNDERSTAND THAT GSL, ESPECIALLY FINANCE MINISTRY,
SEES ESSO COMPENSATION CASE AS CERTAIN PRECEDENT

FOR SHELL AND OTHER OUTSTANDING CLAIMS AGAINST CPC
AND FOR MUCH LARGE FOREIGN COMPANY COMPENSATION
CLAIMS, LARGELY BRITISH, FOR TEA, RUBBER, COCONUT
ESTATES RECENTLY NATIONALIZED.

6. CONCERNING IMPLICATION FOR SRI LANKA'S GSP
ELIGIBILITY, IN EARLY OCTOBER DCM AND EMBASSY ECONOMIC
OFFICER CALLED ON COOMARASWAMY TO EXPLAIN GSP
PROVISIONS AND TO URGE PROGRESS ON ESSO CLAIM. AT
SAME TIME, EMBASSY STRESSED POTENTIAL GSP JEOPARDY TO
TRADE MINISTRY SECRETARY WHO ARRANGED LETTER FROM
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TRADE MINISTER TO SUBASINGHE URGING PROMPT RESOLUTION.
FINANCE AND TRADE MINISTRIES WERE REPRESENTED AT ESSO/CPC
SESSIONS. WE UNDERSTAND PRIME MINISTER AND FINANCE
MINISTER ARE AWARE OF GSP IMPLICATION AND OF OUR
INTEREST IN SEEING CLAIM SETTLED.

7. IF TAX AND EXCHANGE RATE ISSUES CAN BE RESOLVED
WITHOUT REQUIRING FURTHER SEPARATE DETAILED NEGOTIATION, ESSO

CLAIM MIGHT RPT MIGHT BE SETTLED FINALLY BY YEAR END.
VAN HOLLEN

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Margaret P. Grafeld
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